

GST Audit

1. Introduction:

- 1.1 The Mandatory Audit by a Chartered Accountant in the area of Indirect Taxes is new in India except in the case of VAT laws of some States. Some Chartered Accountants may be familiar with VAT Audit. However, GST is the summation of many indirect taxes such as Central Excise, Service Tax, VAT/CST, Customs etc and altogether a new law. The expertise or experience of the earlier law is very useful in GST for many provisions which have been lifted from various laws. Examples could be the place of supply (place of provision of services rules), time of supply of services (point of taxation rules), valuation of supply of goods (Central Excise Valuation) etc. However, care needs to be exercised as to the phrases departed or changed in which case we have to unlearn the old law and learn GST afresh for its better understanding.
- 1.2 The major thrust in GST is on self assessment though the Officers of the States who are involved in drafting are very keen on its reintroduction for obvious reasons. Therefore, the onus /responsibility of the person liable to pay the tax to compute the correct tax payable and pay the tax and comply with the provision of GST law is much higher. There is proposed to be very less interaction between the officers of the GST department and the assessee once the law is transited smoothly. Most compliances happen online post reasonable compliance is there. The status today is as follows: 80% filing the summary return under GSTR-3B. However only 20% are filing GSTR-1, maybe due to technical difficulties and also as discrepancy is leading to immediate questioning by the revenue authorities.
- 1.3 However, since the compliances are online, all the errors are going to be calculated immediately. Examples:
- Transitional credit not matches in GSTR1 or
 - Liability not matched or
 - ITC not matching in GSTR1.

The system would immediately issue an auto generated notice for providing the reconciliation and if not done will result in dispute wherein interaction may take place. However, after the initial hitches are overcome in the next 9 months or so, we can expect 2019 onwards smoother compliance. Then the information technology and artificial intelligence used by the revenue to look at patterns

spike in liability, credits, reconciliations by intelligent systems etc and much more online resolution would be the order of the day.

- 1.4 The level of tax compliances prevailing and complex nature of tax laws in our Country makes it necessary that accounts of the assessee needs to be audited under various tax laws. Level of education also plays important role in the tax compliance. Though the better education of the assessee does not guarantee the better tax compliance, un-education certainly makes it difficult to understand the law. Therefore, in-order to ensure the better voluntary compliance by the assessee, the GST law provides for Audit by professionals in certain cases. In the past, tax compliant assesseees have been known to voluntarily conducts the excise or service tax audit by experts to comply as well as ensure all benefits under the law are availed. In fact, most of the self audit exercises have been found to be quite value additive.

Self Audit Exercise-Advantages:

- 1.5 **Clients** – Generally clients do not get their books of accounts and records voluntarily audited for indirect tax compliances. But whose whoever are doing that, the value additions what they get are tremendous. The financial impact in indirect tax is always substantial. Normally the departmental enquiry, audit happens after 3-5 years. After such long time if it is found some non-compliances or liability to be paid, the quantum of amount to be paid would be very huge including interest and penalty. The tax, in many cases, could not be collected from the customers also in such cases. Even if collected from the customers, cenvat credit would not be available and will be a cost to the customer. In many cases, the cenvat credit may also go unnoticed which will be a huge loss to the assessee. Therefore, wherever, periodic review is done from time to time, the discrepancies will be noticed at source, corrective measures can be taken immediately. Any benefits, refunds etc will be applied for on time which many times go unnoticed. Thus, it may lead to maximization of credit availment and minimization of tax outgo due to proper planning and timely compliances.
- 1.6 **Department-** Periodic review of the indirect tax audit will help the department also. There may be some situations where genuine tax liability would not have been paid but during the audit the same may be noticed and then paid. Better tax compliance is always good for the department. The time of the officers can be used for more productive purpose. Voluntary compliances by the assessee

may force the department/government to more simplify the law and procedures. It would be a win-win situation.

- 1.7 **Professionals-** From the periodic self audit, the professional will also find sufficient time to go through the records more in details. This will help them to understand the operations of the client better, resulting in more value addition. Instead of carrying out the audit at the end of the year, periodic audit will help the professional to become more expert in the subject which help the client also.

2. Preparation for GST Audit:

Considering the fact that GST is a new law and audit under GST is also happening for the first time, it needs lots of preparation both by the auditor and the auditee. In case of statutory audit and tax audit (u/s 44AB of IT Act) the main focus of the auditor is on the financial records. Whereas in GST audit, the coverage of records is much more. Therefore, it requires deep understanding of the GST law, various mandatory records specified therein, requirements of reporting and source of information, understanding of the business of the auditee etc. All these needs substantial preparation and time. Following are the various steps an auditor can start in connection with the forthcoming GST audit.

- a. Inform the concerned assessee about the applicability of GST audit.
- b. Confirm the eligibility to be the GST auditor as per related act and the guidelines issued by ICAI. (when it is promulgated)
- c. Understand the requirements of records to be maintained and advise the client to maintain the accounts and records so required.
- d. Start preparing the detailed audit programme, list of records to be verified.
- e. Prepare a questionnaire to understand the operations/activities of the auditee.
- f. Special attentions to transactions not appearing the financial accounts, having GST implications.
- g. Host of important reconciliations.

3. Audit under GST Act – Relevant Statutory Provisions.

- 3.1 The existing GST law states that in certain cases, the accounts are required to be audited. However, till now the detailed Rules regarding audit and Audit Report format etc are not yet notified. In the absence of these, the exact scope of the audit cannot be determined. Audit manual, audit programme cannot be

finalized. Now the financial year is coming to an end and hence the process of statutory audit and other audits will start. The engagement of GST auditor has also started. Therefore, it is important to understand certain aspects like whose accounts are to be audited, who can be the auditor, what are the regulations of ICAI applicable to GST auditor, the procedure for appointment, possible scope and preparations required etc.

The smart entrepreneurs may start getting the periodic reviews in preparation done as the law is ever changing (300 Notifications + innumerable FAQs, Circulars, tweets) making it difficult for normal businessmen to comply.

3.2 **Section 35(1):**

“Every registered person shall keep and maintain, at his principal place of business, as mentioned in the certificate of registration, a true and correct account of—

- (a) production or manufacture of goods;
- (b) inward and outward supply of goods or services or both;
- (c) stock of goods;
- (d) input tax credit availed;
- (e) output tax payable and paid; and
- (f) such other particulars as may be prescribed:

Provided that where more than one place of business is specified in the certificate of registration, the accounts relating to each place of business shall be kept at such places of business:

Provided further that the registered person may keep and maintain such accounts and other particulars in electronic form in such manner as may be prescribed.”

3.3 **Section 35(5):**

“Every registered person whose turnover during a financial year exceeds the prescribed limit shall get his accounts audited by a chartered Accountant or a cost accountant and shall submit a copy of the audited annual accounts, the reconciliation statement under sub-section (2) of section 44 and such other documents in such form and manner as may be prescribed.”

3.4 **Section 44(2):**

“Every registered person who is required to get his accounts audited in accordance with the provisions of sub-section (5) of section 35 shall furnish, electronically, the annual return under sub-section (1) along with a copy of the audited annual accounts and a reconciliation statement, reconciling the value of supplies declared in the return furnished for the financial year with the audited annual financial statement, and such other particulars as may be prescribed.”

3.5 **Rule 80(3):**

“Every registered person whose aggregate turnover during a financial year exceeds two crore rupees shall get his accounts audited as specified under sub-section (5) of section 35 and he shall furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in FORM GSTR-9C, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.”

Analysis of the relevant provisions

Section 35(5) read with Rule 80(3) provide that every registered person whose aggregate turnover during a financial year exceeds Rs. 2 crores shall get his accounts audited by a chartered accountant or a cost accountant.

3.6 **Aggregate Turnover:**

Sec 2(6) ““aggregate turnover” means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes central tax, State tax, Union territory tax, integrated tax and cess;”

Inclusions in the aggregate turnover:

- All taxable supplies
- Exempt supplies
- Exports
- Supplies to branches in other States having same PAN

Exclusions in the aggregate turnover:

- Inward supplies on which tax is paid under RCM
- CGST/IGST/SGST/UTGST/Cess

3.7 **Exempt Supply:**

Sec 2(47) “exempt supply” means supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax under section 11, or under section 6 of the Integrated Goods and Services Tax Act, and includes non-taxable supply;

Examples: Sale of live animals, live fish, fresh milk, lassi, curd, vegetables, electrical energy, renting of residential dwelling for use as residence, charitable activities.

3.8 **Non-Taxable Supply:**

Sec (78) “non-taxable supply” means a supply of goods or services or both which is not leviable to tax under this Act or under the Integrated Goods and Services Tax Act;

Examples: Sale of petroleum products, sale of alcohol for human consumption, sale of land and building

3.9 **Aggregate turnover for the Year 2017-18?**

The GST has been implemented wef 01.07.2017. Therefore, for the financial year 2017-18, for the full year GST was not applicable. In this case whether the limit of Rs. 2 crore is applicable for this year or proportionately we need to determine? We may have to wait for the clarification from the government on this.

4. **Assessee whose accounts are to be audited:**

- 4.1 From the above provisions of the GST law, it may be summed up that the accounts of registered person whose aggregate turnover during a financial year exceeds Rs. 2 crore required to be audited. The turnover of Rs. 2 crore is to be computed including turnover in all the States/UTs (all India basis) under same PAN. It is important to note here that the threshold turnover limit of Rs. Two crore is same for assessee in all the States and Union Territories. No separate threshold limit is specified for Special Category States. Since each State GST Acts also have the provisions relating to audit, the GST audit shall be State-

wise. For the purpose of applicability only, the all India based turnover is to be considered.

- 4.2 Since the audit under GST law is new to everyone, many auditees may not aware about the same. It would be the duty of a chartered accountant/auditor to inform the auditee about the requirement of GST audit, mandatory documents and other preparation required by the auditee.

5. Audit by a Chartered Accountant or a Cost Accountant.

5.1 The Chartered Accountants Act, 1949

- Sec 2(1)(b) - a “chartered accountant” means a person who is a member of the Institute.
- Sec 2(2) - a member shall be deemed to be in practice if he engages himself, for a consideration, in the specified activities, which includes *interalia* audit.

Sec 6 provides that a member cannot practice without obtaining Certificate of Practice (COP).

Thus, only a member of ICAI having COP or firm of CAs can take up the GST Audit.

- 5.2 Any member in part time practice is not entitled to perform attest function. (242nd Council Meeting Resolution). For example, an employee of the CA firm can have COP, but he cannot perform attestation function. Only partners can perform attestation function.
- 5.3 In case of joint audits, all the auditors will have to sign the audit report. If the auditors have different opinion, then they should issue separate audit reports. (Ref SA 299).
- 5.4 A chartered accountant having substantial interest (for meaning of substantial interest, refer Appendix 9 of CA Regulations 1988) in the assessee cannot take up the audit. (Clause 4 of Part I of the Second Schedule the Chartered Accountants Act, 1949)
- 5.5 A chartered accountant who is responsible for writing or the maintenance of books of account of the assessee should not audit such assessee (Clause (4) of Part I of the Second Schedule to the Act).
- 5.6 Internal auditor of an assessee cannot be appointed as his tax auditor (281st Council Meeting Resolution).

- 5.7 A chartered accountant should not accept the GST audit of a person to whom he is indebted for more than Rs. 10,000/-. (Chapter X of ICAI Guidelines).
- 5.8 The restrictions applicable for appointment of statutory auditor where fee for other services are more than the statutory audit fee, in case of specified entities, is not applicable GST auditors. (Chapter IX of ICAI Guidelines).
- 5.9 A chartered accountant cannot charge professional fees based on a percentage of profit or which are contingent upon the finding or the result of the professional employment. (Clause 10 of part I of the First Schedule to the CA Act, 1949).
- 5.10 In many cases, an assessee may be having his GST registrations in many States. The assessee may appoint single auditor for all his registered establishments. Accounts and records might have been kept in the local language of the State. It is suggested that in the normal course, the auditor should not accept the audit of accounts written in a language which he/his staff does not understand.
- 5.11 With regard to appointment of a Cost Accountant as auditor also similar provisions may be applicable as per the regulations framed by Institute of Cost Accountants of India.

6. Audit Engagement:

- 6.1 In case of a company the appointment of the GST auditor should be made through a resolution of the Board of Director or by an officer of the company, if so authorized by the Board in this behalf. In case of a partnership firm or proprietary concern, the appointment can be made by a partner or the proprietor or a person authorized by the assessee. The acceptance of appointment should also be communicated in writing to the assessee.
- 6.2 Communication with the previous Auditor – Since the GST audit is applicable for the first time for the financial year 2017-18, requirement of communication to the previous auditor does not arises. There may be a case where previously the VAT audit was done by an auditor and GST audit is given to another new auditor. Since GST Acts are separate Acts and the audit specified therein are different compared to VAT audit, there is no need to make communication to earlier VAT auditor for taking up the GST audit. Though the levy of VAT is now subsumed in GST, the VAT Acts are not yet being repealed or subsumed in GST Act. In the subsequent years, in case of change in the GST auditor, the new auditor shall make communication with the previous auditor as per the

provisions of the Chartered Accountants Act, 1949. While making the communication with the retiring auditor, the new auditor should find out whether there are any professional or other reasons why he should not accept the appointment: The professional reasons for not accepting the appointment include;

- a. non-payment of undisputed audit fees.
- b. issuance of qualified report.

The communication to the retiring auditor is not necessary if the retiring auditor is not a chartered accountant

Removal of GST Auditor:

- 6.3 In case of valid grounds for removal, the assessee may remove the GST auditor. This may arise if the auditor delays the submission of required report for an unreasonably long period. However, the auditor cannot be removed on the ground that he has given an adverse audit report. In the event an auditor has been removed without any valid grounds, the Ethical Standards Board of ICAI can intervene and it may direct the incoming auditor not to accept the audit assignment. The writ of the Institute will not operate if the incoming auditor is not a member of the Institute.

7. Submission of Audit Report (?)

- 7.1 Section 35(5) read with section 44(2) of the CGST Act provides that following documents shall be furnished electronically by the assessee upon conclusion of the audit;
- a. Annual Return
 - b. Copy of the audited annual accounts.
 - c. Reconciliation statement, reconciling the value of supplies declared in the return furnished for the financial year with the audited annual financial statement in FORM GSTR 9C.
 - d. Such other particulars, as may be prescribed.
- 7.2 Till now, no format for audit report/certificate has been notified. Whether it will be in the nature of audit report like statutory audit report or tax audit report or certificate like in case of VAT audits? If it is in the nature of certificate, the responsibility of the GST auditor would be substantially high.

- 7.3 Certificate Vs. Report – Para 2.2 of the Guidance Note on Audit Report and certificates for Special Purpose issued by the Institute notes the difference between the term ‘certificate’ and ‘report’ as under;
- “A Certificate is a written confirmation of the accuracy of facts stated there in and does not involve any estimate or the opinion.”
- “A Report, on the other hand, is a formal statement usually made after an enquiry, examination or review of specified matters under report and includes the reporting auditors opinion thereon”.
- 7.4 Thus, where a certificate is issued, the chartered accountant shall be responsible for factual accuracy of what is stated therein. In case of report, he is responsible for ensuring that the report is based on the factual data, true and fair to the best of his knowledge and information given.
- 7.5 In case of VAT audit under MVAT Act, the auditor is required to give the recommendations also. Thus, Form No 704, though known as VAT audit Report, it is the combination of a Certificate and Report. It is possible that the requirement under GST audit also similar to that under VAT laws.
- 7.6 **Annual Return:** Every registered person other than ISD, person required to deduct TDS, person required to collect TCS, casual taxable person and non-resident taxable person shall furnish annual return for every financial year electronically in the FORM GSTR-9 (composition dealer in GSTR-9A and ECO in GSTR-9B) on or before 31st December following the end of the financial year. Where assessee is required to get his accounts audited, such annual return shall be furnished after the audit. From the wordings of the provisions, it appears that the annual return is not merely the sum total of the periodic returns filed for the year but the return showing the correct figures as per the provisions of GST law based on the annual accounts of the assessee. Where it is required to be audited, the figures appearing in the annual return shall be as per the audited figures.
- 7.7 **Copy of the audited annual accounts** – The assessee is required to give a copy of the audited annual accounts. In case of a company, the accounts are to be audited by the statutory auditor as per the provisions of the Companies Act, 2013. Section 44AB of the Income Tax Act, 1961, provides for tax audit in cases where turnover exceeds the limit specified therein. The threshold turnover limit specified under section 44AB of the IT Act, 1961 (Rs. 100 lacs/Rs. 50 lacs) is less than that specified in GST law. Therefore, where the GST audit is applicable, invariably the provisions of section 44AB of the IT Act, 1961 is

applicable, in addition to statutory audit under Companies Act, 2013 in case of companies. The question here is what about the cases where statutory audit or tax audit has not been done before the due date for completing the GST audit?

- 7.8 The GST audit requires the reconciliation with the audited annual accounts. In the absence of audited annual accounts, reconciliation will not be possible.
- 7.9 **Reconciliation statement-** Rule 80(3) provides that the reconciliation statement shall be furnished in the FORM GSTR-9C (format is yet to be notified). The provisions of section 44(2) requires reconciliation of figure declared in 'return furnished for the financial year' with the audited annual financial statement. It appears that the return furnished for the financial year refers to the annual return furnished. In case of VAT audit under MVAT Act, the comparative figures of the returns filed and the figures as per the audit are required to be given. Further, there is a specific Annexure-K for reconciliation of the sales and purchase figures as per the VAT law (audit report) with that of in the audited annual accounts.
- 7.10 During the course of audit, the discrepancies found if any, shall be rectified by declaring the correct figures in the annual return. However, the time limit for declaring the details of debit note/credit note and for taking the input tax credit will get over in September of the following year. Where the GST audit is done after September and GST auditor finds the requirement of issue of debit note or credit note or notices non-availment of input tax credit, it appears that there is no recourse as per the present provisions of GST law to overcome such situations.
- 7.11 Further, in case of large entities having registration in multiple States/UTs, reconciliation of the figures declared in one State with the consolidated figures in the audited financials is very difficult. As such many transactions on which GST has impact might not be appearing in the annual financial accounts. Examples of such transactions are, stock transfers, distribution of free samples, related party transactions without consideration, goods sent on approval, goods sent for job work etc. The reconciliation with audited financials is possible in case of small and medium entities having presence in one or two States.
- 7.12 **Such other particulars, as may be prescribed** – The government is yet to prescribe the format of audit report and annexures there to. Now it is also not clear, the auditor is required to identify and report the discrepancies month-wise or annually.

8. Accounts and Other records

8.1 Section 35(1) specifies the accounts and other records to be maintained by every registered person. The provision of the said section is reproduced herewith.

“35. (1) Every registered person shall keep and maintain, at his principal place of business, as mentioned in the certificate of registration, a true and correct account of—

- (a) production or manufacture of goods;
- (b) inward and outward supply of goods or services or both;
- (c) stock of goods;
- (d) input tax credit availed;
- (e) output tax payable and paid; and
- (f) such other particulars as may be prescribed:

Provided that where more than one place of business is specified in the certificate of registration, the accounts relating to each place of business shall be kept at such places of business:

Provided further that the registered person may keep and maintain such accounts and other particulars in electronic form in such manner as may be prescribed.

(2) Every owner or operator of warehouse or godown or any other place used for storage of goods and every transporter, irrespective of whether he is a registered person or not, shall maintain records of the consigner, consignee and other relevant details of the goods in such manner as may be prescribed.

(3) The Commissioner may notify a class of taxable persons to maintain additional accounts or documents for such purpose as may be specified therein.

(4) Where the Commissioner considers that any class of taxable person is not in a position to keep and maintain accounts in accordance with the provisions of this section, he may, for reasons to be recorded in writing, permit such class of taxable persons to maintain accounts in such manner as may be prescribed.”

8.2 Rules 56 to 58 provides in details about the accounts to be maintained. Rule 56 states, further to the details of accounts mentioned in Sec 35(1) a true and correct account of the goods or services imported or exported or of supplies attracting payment of tax on reverse charge along with the relevant documents, including invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and refund vouchers.

8.3 The records relating to stock of goods should contain particulars of the opening balance, receipt, supply, goods lost, stolen, destroyed, written off or disposed of

by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.

- 8.4 Every registered person shall keep and maintain a separate account of advances received, paid and adjustments made thereto. Every registered person shall keep the particulars of -
- (a) names and complete addresses of suppliers from whom he has received the goods or services chargeable to tax under the Act;
 - (b) names and complete addresses of the persons to whom he has supplied goods or services, where required under the provisions of this Chapter;
 - (c) the complete address of the premises where goods are stored by him, including goods stored during transit along with the particulars of the stock stored therein. If any goods are found at a place other than so declared, without valid tax invoice, the same shall be treated as supply and liability to pay may arise.
- 8.5 Every registered person shall keep the books of account at the principal place of business and books of account relating to additional place of business mentioned in his certificate of registration
- 8.6 Any entry in registers, accounts and documents shall not be erased, effaced or overwritten, and all incorrect entries, otherwise than those of clerical nature, shall be scored out under attestation and thereafter the correct entry shall be recorded and where the registers and other documents are maintained electronically, a log of every entry edited or deleted shall be maintained.
- 8.7 Each volume of books of account maintained manually by the registered person shall be serially numbered.
- 8.8 Unless proved otherwise, if any documents, registers, or any books of account belonging to a registered person are found at any premises other than those mentioned in the certificate of registration, they shall be presumed to be maintained by the said registered person.
- 8.9 Every registered person manufacturing goods shall maintain monthly production accounts showing quantitative details of raw materials or **services used** in the manufacture and quantitative details of the goods so manufactured including the waste and by products thereof.
- 8.10 Every registered person supplying services shall maintain the accounts showing quantitative details of goods used in the provision of services, details of input services utilised and the services supplied.

- 8.11 Every registered person executing works contract shall keep separate accounts for works contract showing -
- (a) the names and addresses of the persons on whose behalf the works contract is executed;
 - (b) description, value and quantity (wherever applicable) of goods or services received for the execution of works contract;
 - (c) description, value and quantity (wherever applicable) of goods or services utilized in the execution of works contract;
 - (d) the details of payment received in respect of each works contract; and
 - (e) the names and addresses of suppliers from whom he received goods or services.
- 8.12 The records under the provisions of this Chapter may be maintained in electronic form and the record so maintained shall be authenticated by means of a digital signature
- 8.13 Where records are generated and maintained electronically, proper backup is to be maintained and preserved. On demand by the officers, the registered person shall give the electronic record file with the password.

9. GST Audit programme

- 9.1 In the absence of format of reporting or information to be furnished after the audit, preparation of the GST audit programme shall be incomplete. However, based on our past experience in audit and considering the applicable provisions of GST law, one can start the audit programme and finalise once the reporting requirement is notified. The audit programme may be prepared considering, based on our audit experience, following are aspects to be covered in the report;
- the books of account and other related records maintained by the registered person are sufficient for the verification of the correctness, completeness and accuracy of the returns filed for the year;
 - the annual return filed by the registered person reflects the correct figures and includes all the transactions effected during the year that need to be reported;
 - the value of outward supplies declared in the annual return include all the outward supplies effected during the year;
 - the value of inward supplies declared in the annual return include all the inwards supplies effected during the year;

- the transactions included / excluded from the value of supply are in accordance with the provisions of the law;
- the exemptions claimed in the annual return are in conformity with the provisions of the law;
- the amount of input tax credit determined as ineligible in accordance with the provisions of the law have been disallowed in the annual return;
- the classification of outward supplies, rate of tax applicable and computation of output tax and net tax payable as shown in the annual return is correct;
- other information given in the return is correct and complete.

9.2 Further following would be the other relevant information which the audit programme should cover;

- General profile of the assessee
- Brief nature of the business of the assessee
- Registration details, APOB, registrations in other states
- List of accounts and records maintained and information on software used.
- Details of outward supplies, exports, supply to SEZ, tax paid under RCM, supplies without consideration etc
- Details of outward supplies involving works contracts, composite supplies, mixed supplies and continuous supplies.
- Classification and rate on all outward supplies.
- Applicable provisions of place of supply of all outward supplies of the auditee.
- Applicable provisions of the time of supply of all outward supplies of the auditee.
- Transaction value, inclusions, exclusions.
- Transaction attracting Valuation Rules and its determination of value.
- Compliance of the conditions of input tax credit, proportionate credit availed, ineligible credit reversal, credit on input, input services and capital goods, payment to suppliers etc.
- Details of goods sent for job work and receipt of the same. Details of job work done.
- ISD and cross charging.
- Details of exemptions claimed and compliance of the conditions therein.

- Payment of taxes
- Refunds claimed and its compliances and received.
- Departmental correspondences, notices and its compliances.
- Ratios

10. Understanding the business of the auditee

10.1 In many cases, an auditee may approach a chartered accountant for audit for the first time. The chartered accountant may not have provided any service to him in the past. The level of tax and other statutory compliance would not be known to the chartered accountant. Since the GST audit casts greater responsibility on the auditor, it is very important that the auditor should know the nature and complexity of the business of the auditee and the methodology and the types of operations. When an auditee approaches a chartered accountant for the first time, the chartered accountant must be extra careful about the GST compliance of the auditee. To get the required information which will enable the auditor to be familiar with the business, modus of operation etc it is advisable to prepare a standard questionnaire. At the same time, if you give the questionnaire to a prospective auditee, he may not understand most of it. In such cases, an employee of the auditor may sit with the auditee and complete the questionnaire.

11. Special attentions to transaction not appearing in the financial accounts:

11.1 There are many transactions which may not appear in the financial accounts and records maintained by the assessee. The examples of such transactions are, removal of input or output as free samples, gifts, branch transfers, related party transactions without consideration, services provided by the employees outside the terms of employment, supplies involving cross charging, issues involving time of supplies in case of continuous supplies etc.

12. Use of Software:

12.1 Auditors are now used to various software for all types of audits. The over dependency on software makes the audit mechanical and value additions could be very low. So many things may go unnoticed which otherwise would have impact on the audit outcome. First of all, while selecting the suitable software, the auditor must exercise due care to ensure that the software covers all the transactions and updated with the latest amendments. In GST, since the audit

is being done for the first time, while selecting and using the software, the auditor should pay more attention.

13. Challenges for the year 2017-18

13.1 The financial year 2017-18 being the first year of GST audit, there would be many challenges an auditor as well as an auditee will have to face. Some of them are listed herein below;

- a. Computation of turnover limit for eligibility for audit.
- b. First quarter of the year – VAT Audit, wherever applicable. For next 3 quarters GST audit. Assessee will have to undergo multiple audits.
- c. Lack of clarity in the GST law.
- d. Frequent changes in the law, issuance of more than 300 notifications.
- e. Failure of the matching concept. For example, in the absence of GSTR2 and GSTR3, the recipient cannot come to know that the supplier has paid the tax and filed the return. Without tax being paid by the supplier, ITC would not be available to the recipient as per Sec 16(2). How can an auditor give his opinion on correctness of ITC claim?
- f. Complex procedural compliance under GST.
- g. Reliability of the audit software is not tested.
- h. Absence of mandatory records in most cases.
- i. High volume of procedural lapses and non-compliances by the assessee, incorrect documents.
- j. Transitional issues, law not covering all types of transactions.

14. Consequence of failure to submit the annual return

14.1 Section 47(2) provides that in case of failure to submit the annual return within the specified time, a late fee of Rs. 100 per day during which such failure continues subject to a maximum of a quarter percent of his turnover in the State/UT.

15. Suggested Reference materials – ICAI

15.1 The Institute, being the supreme regulatory body on accounts, audits and financial reporting, provides all the information on these aspects. Following are some of the important provisions, documents of ICAI, which every auditor must go through.

S. No.	Particulars	Relevance
1	The Chartered Accountants Act, 1949	Member, COP, CA in practice etc
2	Appendices to CA Act, 1949	Council meeting resolutions
3	Schedules to CA Act, 1949	Professional misconduct in relation to chartered accountants in practice
4	Chartered Accountants Regulations 1988	Member, COP etc
5	ICAI Guidance Note on Auditing Aspects	Guidance on various types of audits
6	Code of Ethics	Ethics to be followed while accepting and conducting the audit
7	Council General Guidelines 2008	Appointment of auditors
8	Standards on Auditing (SA)	General principles & responsibilities, risk assessment, audit conclusions and reporting.
9	Technical literature on auditing	Audit planning, Audit documentation, audit sampling, audits of specific industry etc.

16. Audit Fees:

16.1 Since the GST audit is done for the first time, there would be a challenge even charging the audit fee. The Committee for Capacity Building of Members in Practice (CCBMP) of ICAI has recommended the minimum scale of fee for various professional services including GST audit. For the details you may go to <https://resource.cdn.icai.org/47945ccbmp37942.pdf>.